Comptroller of the **State of New York**

Treasurer of the **State of California**

Treasurer of the **State of North Carolina**

Mutual Fund Protection Principles

Shareholder Reforms

Billing: Mutual fund shareholders shall receive at least annually a statement of the charges, expressed in dollars, debited from their account for management, 12b-1 and other distribution expenses, and other expenses.

Fees: The management fee schedule shall be reasonable and shall contain breakpoints that provide meaningful economies of scale to shareholders. In arriving at the fee schedule, the board of directors will conduct a comparative analysis using other funds, including fees charged to institutional accounts by the advisor. The mutual fund will furnish the board with an itemization of the expenditures associated with investment advisory services, marketing and advertising, operations and administration and general overhead, as well as the pre-tax profit.

(i) Only the independent directors may vote to approve fees.
(ii) The rationale and analysis supporting the fee schedule, including the various items of expense covered by the fee, will be published in the mutual fund’s annual report.

Board Reform

Independence: At least three-quarters of the mutual fund board and the chairman shall be independent directors and shall not have had any material business or employment relationships with the fund company, advisor or any service provider and shall not have had such a relationship for a period of five years prior to the appointment.

Meetings & Resources: The independent directors, or an appropriate subcommittee composed of independent directors will meet at least annually with the chief compliance officer of the fund and advisor, as well as the independent auditor without management present. The board shall hire its own staff or retain appropriate advisors.

Manager Reform

Compensation: The mutual fund will disclose in the annual report, the compensation of the portfolio manager, as well as the methods and factors used to derive compensation. If a team manages the mutual fund, the compensation of the top three managers on the team and total compensation to the team will be disclosed.

Ownership: Each portfolio manager and the senior management of the advisor shall reveal in the annual report, the number of shares owned in the fund together with all purchases and sales in the fund for the 12-month prior period.

Sale of funds: A portfolio manager and any other research, marketing or senior executive of a mutual fund company or the advisor who purchases shares in one of its mutual funds will hold those shares, with the exception of money market funds, for at least 12 months.

Fund Disclosure

Holdings: (i) A mutual fund will disclose its security holdings on a quarterly basis (with a maximum delay of 45-days). (ii) If a mutual fund company discloses any holdings, fundamental characteristics or other information to consultants, brokers, selected shareholders or other 3rd parties, the information shall be simultaneously posted on the fund's web-site or web-cast.

Trading costs: A mutual fund will disclose in its annual report information on the trading costs of the fund, including turnover, and a schedule of commissions paid to and shares traded with broker dealers.

Soft dollars: A mutual fund will disclose in its annual report, the amount of soft dollars paid by the fund, together with a schedule of the brokers utilized to execute the trades and a list of the soft dollar services purchased through the trades as well as the net credit or debit balance with each such broker.

Professional Staff: A mutual fund will disclose in its annual report all investment professionals, in addition to the portfolio manager, who are involved with the management of the mutual fund, any turnover among such personnel in the last 12 months, and all other products or mutual funds managed by the portfolio managers.

January 15, 2004

OFFICE OF THE TREASURER
P. O. BOX 942809
SACRAMENTO, CA 94209-0001

Mutual Fund Protection Principles in California

California Treasurer Phil Angelides, joined by New York State Attorney General Eliot Spitzer, New York State Comptroller Alan Hevesi and North Carolina Treasurer Richard Moore, proposed Mutual Fund Protection Principles on January 15, 2004. The Treasurer will now seek the approval of the Principles by three boards on which he sits – the California Public Employees' Retirement System (CalPERS), California State Teachers' Retirement System (CalSTRS) and ScholarShare Investment Board (ScholarShare). In addition, Angelides has written a letter to Governor Arnold Schwarzenegger, urging the Schwarzenegger Administration to apply the Principles to the savings plans administered by the State Department of Personnel Administration. Under the Treasurer's proposal, the Principles would then apply to:

- Any firm that manages defined contribution plans for the State. These plans combined represent more than $6 billion in State investments. Within CalSTRS, the Principles would apply to firms managing the teachers' 403 (b) plan, and within CalPERS, the Principles would apply to employees' 457 plans that CalPERS manages on behalf of California's public agencies. In the State Treasurer's Office, the principles would apply to the ScholarShare program (California's college savings plan). And at the State Department of Personnel Administration, the Principles would apply to a 457 plan and a 401(k) plan.

- Any CalPERS or CalSTRS money manager who also has mutual fund assets, as part of the review of the overall management of the money manager, where there is no clear separation between the manager's institutional account and retail accounts. Today, active managers invest a combined $74 billion on behalf of CalPERS and CalSTRS. The Principles would build on CalPERS' and CalSTRS' continuing scrutiny of the mutual fund activities of their money managers.

CalPERS:

- 457 Plan: $279.3 million invested for 15,689 participants (from 456 agencies).

- Active managers: $27 billion invested on behalf of 1.4 million CalPERS members. CalPERS contracts with 58 different money managers in domestic and international equity and fixed income.

CalSTRS:

- 403 (b) plan: $76 million invested for 3,193 participants. Participants are allowed to choose from 12 core mutual fund managers or self-manage by selecting from among 4,000 mutual funds.

- Active managers: $47 billion invested on behalf of 714,436 CalSTRS members. CalSTRS contracts with 39 different money managers in domestic, international and fixed income.

State Treasurer's Office:

- ScholarShare Plan: $950 million invested for 115,137 participants.

State of California:

(Savings Plus Program administered by the Department of Personnel Administration; approximately 140,000 participants in both plans combined)

- 457 Plan: $3.2 billion invested
- 401(k) Plan: $1.6 billion invested